RECORD AND BRIEFS

No. 16-712

Supreme Court, U.S.
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In The Supreme Court of the United States

OIL STATES ENERGY SERVICES, LLC,

Petitioner,

v.

GREENE'S ENERGY GROUP, LLC, et al.,

Respondents.

On Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF OF 3M COMPANY, BRISTOL-MYERS SQUIBB CO., CARGILL INCORPORATED, JOHNSON & JOHNSON, MONSANTO COMPANY, THE PROCTER & GAMBLE COMPANY, RAYTHEON COMPANY, AND SHELL INTERNATIONAL AS *AMICI CURIAE* IN SUPPORT OF NEITHER PARTY

Hyland Hunt
Counsel of Record
Ruthanne M. Deutsch
DEUTSCH HUNT PLLC
300 New Jersey Ave. NW
Suite 900
Washington, DC 20001
202-868-6838
hhunt@deutschhunt.com

COCKLE LEGAL BRIEFS (800) 225-6964
WWW.COCKLELEGALBRIEFS.COM

QUESTION PRESENTED

Whether *inter partes* review—an adversarial process used by the Patent and Trademark Office to analyze the validity of existing patents—violates the Constitution by extinguishing private property rights through a non-Article III forum without a jury.

TABLE OF CONTENTS

Page

QUESTION PRESENTED i

INTEREST OF *AMICI CURIAE* 1

INTRODUCTION AND SUMMARY OF THE ARGUMENT 2

ARGUMENT 5

I. Patents Are Private Property Rights 5

II. Holding IPR Unconstitutional Need Not Cause Significant Disruption; Congress May Readily Fix The Problems Created By IPR's Significant Expansion Of Agency Power 13

A. Holding IPR Unconstitutional Would Not Cause Widespread Disruption to the Patent System 14

B. Compelling Congress to Take Another Look at IPR Would Permit Congress to Rebalance the Expansion of Administrative Power that Has Undermined Patent Rights 18

1. The PTAB has exercised its regulatory discretion in a manner that makes IPR overwhelmingly and unfairly judge patents to be invalid ... 18

2. Patent owners face repeated and duplicative patent challenges because of the inapplicability of judicial preclusion doctrines 24

TABLE OF CONTENTS – Continued

Page

3. The problem of duplicative litigation is made worse by the absence of standing requirements 27

C. Congress May Readily Fix the IPR System to Address Any Constitutional Deficiencies 29

CONCLUSION 33

TABLE OF AUTHORITIES

Page

CASES:

Alaska Airlines v. Brock, 480 U.S. 678 (1987) 15, 16

Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141 (1989) 6, 8

Brooks v. Byam, 4 F. Cas. 261 (C.C.D. Mass. 1843) 9

Buckley v. Valeo, 424 U.S. 1 (1976) 15, 16

Chevron USA Inc. v. Nat. Res. Def. Council, Inc., 467 U.S. 837 (1984) 18, 19

Chicot County Drainage Dist. v. Baxter State Bank, 308 U.S. 371 (1940) 14

City of Milwaukee v. Illinois & Michigan, 451 U.S. 304 (1981) 16

Computing Scale Co. v. Toledo Computing Scale Co., 279 F. 648 (7th Cir. 1921) 9

Consol. Fruit Jar Co. v. Wright, 94 U.S. 92 (1876) 7

Consumer Watchdog v. Wis. Alumni Research Found., 753 F.3d 1258 (Fed. Cir. 2014) 28

Cuozzo Speed Techs., LLC v. Lee, 136 S. Ct. 2131 (2016) 17, 19, 24

Dowagiac Mfg. Co. v. Minn. Moline Plow Co., 235 U.S. 641 (1915) 9

Ex parte Wood, 22 U.S. (9 Wheat.) 603 (1824) 5

Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., 535 U.S. 722 (2002) 8

TABLE OF AUTHORITIES – Continued

Page

Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank, 527 U.S. 627 (1999) 5

Goodyear Dental Vulcanite Co. v. Van Antwerp, 10 F. Cas. 749 (C.C.D.N.J. 1876) 9

Harper v. Va. Dep't of Taxation, 509 U.S. 86 (1993) 14

Hodges v. Easton, 106 U.S. 408 (1882) 30

Horne v. Dep't of Agric., 135 S. Ct. 2419 (2015) 5, 7

James v. Campbell, 104 U.S. 356 (1882) 5

Johnson v. Towsley, 80 U.S. (13 Wall.) 72 (1871) 11

McCormick Harvesting Mach. Co. v. C. Aultman & Co., 169 U.S. 606 (1898) 10, 12

McGlurg v. Kingsland, 42 U.S. (1 How.) 202 (1843) 7, 8

McKeever v. United States (*McKeever's Case*), 14 Ct. Cl. 396 (1878) 5, 6

MCM Portfolio LLC v. Hewlett-Packard Co., 812 F.3d 1284 (Fed. Cir. 2015) 12

Mead Corp. v. Tilley, 490 U.S. 714 (1989) 16

Moore v. Robbins, 96 U.S. 530 (1877) 10, 11

Mowry v. Whitney, 81 U.S. (14 Wall.) 434 (1871) 11

N. Pipeline Constr. Co. v. Marathon Pipe Line Co., 458 U.S. 50 (1982) 29, 30

Nidec Motor Corp. v. Zhongshan Broad Ocean Motor, ___ F.3d ___, 2017 WL 3597455 (Fed. Cir. Aug. 22, 2017) 22, 26

TABLE OF AUTHORITIES – Continued

Page

Novartis AG v. Noven Pharm. Inc., 853 F.3d 1289 (Fed. Cir. 2017) 27, 28

Peretz v. United States, 501 U.S. 923 (1991) 32

Personal Audio, LLC v. Electronic Frontier Found., No. 2016-1123, 2017 WL 3366604 (Fed. Cir. Aug. 7, 2017) 28

Shaw Indus. Grp. v. Automated Creel Sys., 817 F.3d 1293 (Fed. Cir. 2016) 25

Society for the Propagation of the Gospel in Foreign Parts v. New Haven, 21 U.S. (8 Wheat.) 464 (1823) 8

Stern v. Marshall, 564 U.S. 462 (2011) 31

Trailmobile Co. v. Whirls, 331 U.S. 40 (1947) 16

United States v. Raddatz, 447 U.S. 667 (1980) 29, 30

United States v. Stone, 69 U.S. (2 Wall.) 525 (1864) 10, 11

Wellness Int'l Network, Ltd. v. Sharif, 135 S. Ct. 1932 (2015) 30, 32, 33

Yissum Research Development Co. v. Sony Corp., 626 F. App'x 1006 (Fed. Cir. 2015) 22

CONSTITUTIONAL PROVISIONS

U.S. CONST., art. I, § 8, cl. 8 6

U.S. CONST., art. III ..... *passim*

U.S. CONST., amend. VII 3

TABLE OF AUTHORITIES – Continued

Page

STATUTES AND RULES:

28 U.S.C.

§ 157(b)(2) 30

§ 157(b)(4) 30

§ 157(c) 31

§ 158 31

§ 636(b)(1) 30

35 U.S.C.

§ 141(c) 28

§ 141(d) 31

§ 142 14

§ 146 (2010) 31

§ 251 17

§ 282(a) 20

§ 282(b)(2) 22

§§ 302-307 17

§ 305 17

§ 311(b) 22

§ 315(e)(1) 25

§ 316(e) 20

§§ 321-329 4

§ 325(d) 24

TABLE OF AUTHORITIES – Continued

Page

Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011)

§ 3(n) 31

§ 18 4

37 C.F.R. § 42.100 19

OTHER AUTHORITIES:

77 Fed. Reg. 48,680 (Aug. 14, 2012) 20, 23

157 Cong. Rec. H4,491 (daily ed. June 23, 2011) 16

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H.R. Rep. No. 112-98 (2011) 15

TABLE OF AUTHORITIES – Continued

Page

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PATENT ACT—Finding Effective Solutions to Address Abusive Patent Practices: Hearing on S. 1137 Before the S. Comm. on the Judiciary (May 7, 2015) 27

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PTO, Patent Trial and Appeal Board, *Trial Statistics: IGR, PGR, CBM* (July 2017) 20, 21

PTO, *Patent Trial and Appeal Board Statistics* (Sept. 2015) 23

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S. Doc. No. 338 (1836), *as reprinted in* 18 J. PAT. OFF. SOC'Y 854 (1936) 32

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INTEREST OF *AMICI CURIAE*[1]

Amici are among the most accomplished American innovators. Together they spend tens of billions of dollars annually, and employ hundreds of thousands of scientists, engineers, and others in the United States, to research, develop, produce, and market new products across a wide range of industries and technologies.

These innovation efforts depend upon the stability and strength of patent rights. Patents provide the legal foundation and protections that are essential to secure the costly and uncertain investments in research, commercialization, and manufacturing needed to turn *amici*'s inventions into new products and businesses. To support such long-term investments, and the returns needed to justify them, patent protection must be fair, dependable, and predictable. The enforceability of issued patents has traditionally rested on a firm and unwavering constitutional, statutory, and precedential foundation, and was not subject to the ordinary shifts in regulatory policies common with changes in administrations.

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[1] This brief is filed with the written consent of all parties. Universal letters of consent from Petitioner and Respondent Greene's Energy Group, LLC, are on file with the Clerk. The written consent of Respondent Matal is being submitted concurrently. No counsel for either party authored this brief in whole or in part, and no person or entity other than the *amici* or their counsel made a monetary contribution to the brief's preparation or submission.

In reliance on the Nation's patent system, *amici* collectively have obtained hundreds of thousands of United States patents and seek tens of thousands more every year from the United States Patent & Trademark Office ("PTO"). Several of the *amici* thus routinely appear in patent litigation before the courts and the Patent Trial and Appeal Board ("PTAB"): both as patent owners asserting their patents against alleged infringers or defending their patents against claims of invalidity; and as alleged infringers defending themselves against allegations of infringement or asserting, including before the PTAB, that another entity's patents are invalid. *Amici*'s interests are thus balanced.

No matter what this Court decides the Constitution requires in terms of the ultimate allocation of power between the courts and the PTAB, *amici*'s interests will continue to favor the fair and predictable adjudication of patent rights, and procedures that do not disrupt the longstanding investments that have been made in reliance upon our patent system.

INTRODUCTION AND SUMMARY OF THE ARGUMENT

For nearly two centuries, this Court's precedents have reaffirmed that issued patents are private property, protected by the same constitutional principles and common-law doctrines that protect other forms of private property. A granted patent necessarily carries with it a judicially-enforceable

right to exclude others from the use of a claimed invention, just as any other property inherently includes a judicially-enforceable right against its theft or unauthorized use. Accordingly, inventors from the English common-law era, through the founding of the United States, to today—until very recently, that is—have understood their issued patents to be their private property, not public rights subject to plenary government control. To the extent the Federal Circuit has concluded otherwise, this Court should reject that holding.

Amici take no position on the further issue of whether the status of patents as private rights compels a holding that *inter partes* review ("IPR"), under the current statutory framework, is facially unconstitutional. They expect those constitutional issues to be thoroughly briefed by the parties and other *amici*. Rather, *amici* write to aid the Court's understanding of the practical consequences of holding IPR unconstitutional, based on the extensive experience of many of them in litigating patents before the agency and in the courts. The bottom line: if the Court were to hold that Article III and Seventh Amendment protections must be provided for all adjudications of patent validity, that holding would not significantly disrupt the patent system. Rather, improvements to agency reviews of issued patents, subject to *de novo* review by Article III courts, would likely improve the consistency, reliability, and fairness of patent validity adjudications.

In *amici*'s view, were the IPR provisions of the America Invents Act ("AIA") to be found unconstitutional, the patent system would not be cast into turmoil.[2] The Act's provisions relating to PTAB adjudications are readily severable from the rest of the AIA. Moreover, modified IPR could be implemented with "fixes" that are readily available to Congress. Such modified reviews could still allow the agency to apply its administrative expertise to questions of patentability, while preserving the historical role of courts and juries in adjudicating patent validity.

Ultimately, the crafting of specific reforms is for Congress, not this Court. But the prospect of reform can be a welcome boon, and need not be a downside, of any holding that IPR is unconstitutional. Legislative reforms to address constitutional concerns could ameliorate many of the problems with IPR as now implemented by the PTO. Those problems are legion, in large part because today's IPR represents a significant regulatory overreach by an administrative agency afforded great power to extinguish private property rights without adequate judicial review.

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[2] This case presents the question of the constitutionality of IPR proceedings, and *amici* therefore present their arguments in the context of IPR proceedings. Materially similar issues arise, however, in post-grant review and covered business method review, as well. *See* 35 U.S.C. §§ 321-329 (post-grant review); Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 18, 125 Stat. 284, 329-31 (2011) (covered business method).

ARGUMENT

I. Patents Are Private Property Rights.

1. Patents, once issued, are vested private property rights, as long recognized in this Court's cases. *E.g.*, *Ex parte Wood*, 22 U.S. (9 Wheat.) 603, 608 (1824) ("The inventor has, during this period [of the life of the patent] a property in his inventions . . . of which the law intended to give him the absolute enjoyment and possession.") (Story, J.). That is why patents cannot be taken for public use without just compensation. *Horne v. Dep't of Agric.*, 135 S. Ct. 2419, 2427 (2015) (A patent "confers upon the patentee an exclusive property in the patented invention which cannot be appropriated or used by the government itself, without just compensation[.]") (quoting *James v. Campbell*, 104 U.S. 356, 358 (1882)). Patents are likewise afforded the due process protections guaranteed for private property. *Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank*, 527 U.S. 627, 642 (1999) (Patents "are surely included within the 'property' of which no person may be deprived by a State without due process of law."). In short, Congress is not "empowered to grant to inventors a favor, but to secure to them a right," *McKeever v. United States* (*McKeever's Case*), 14 Ct. Cl. 396, 421 (1878), which takes the form of private property.

That right is based on a "carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology and

design in return for the exclusive right to practice the invention for a period of years." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-51 (1989). Because an inventor is normally free to "keep his invention secret and reap its fruits indefinitely," the grant of a patent rewards the inventor for "disclosure and the consequent benefit to the community." *Id.* at 151. The public, at the same time, gains the benefit of the knowledge and ideas disclosed in the patent, upon which it can thereafter build, accelerating the "progress of science and useful arts." U.S. CONST., art. I, § 8, cl. 8.

In recognition of this bargain, an issued patent is a constitutionally-protected private property right that secures the "mind-work which we term inventions," not the grant of a mere public privilege. *McKeever's Case*, 14 Ct. Cl. at 420. This understanding of patents as constitutionally-protected private property comports with that of the founding generation. In early nineteenth-century America, patents were described as "privileges," but that term was understood to mean "civil rights in property afforded expansive and liberal protections under the law," and to include other property rights and contract rights. Adam Mossoff, *Who Cares What Thomas Jefferson Thought About Patents? Reevaluating the Patent "Privilege" in Historical Context*, 92 CORNELL L. REV. 953, 957, 991 (2007); *see also* Adam Mossoff, *Patents as Constitutional Private Property: The Historical Protection of Patents Under the Takings Clause*, 87 B.U. L. REV. 689 (2007) (discussing

nineteenth century Supreme Court cases, as well as the legislative history of the Patent Act, all of which confirm that patents, once issued, are constitutionally-protected private property).

If the character of an issued patent as purely private property were in any doubt, this Court's recurring analogy to land patents dispels it. *See Horne*, 135 S. Ct. at 2427 (a patent for an invention cannot be taken without compensation "any more than [the government] can appropriate or use without compensation land which has been patented to a private purchaser"); *Consol. Fruit Jar Co. v. Wright*, 94 U.S. 92, 96 (1876) ("A patent for an invention is as much property as a patent for land. The right rests on the same foundation, and is surrounded and protected by the same sanctions."). Both, once issued, confer private property rights protected by the Constitution. In sum, issued patents represent private property rights that are neither solely derived from, nor solely exist by, the will of Congress.

2. The private-property status of issued patents has certain legal consequences, long reflected in this Court's jurisprudence.

First, although Congress may shape the limits of the exclusive right to a claimed invention before issuance of a patent, Congress may not change the fundamental nature of that right once vested by an issued patent. *McGlurg v. Kingsland*, 42 U.S. (1 How.) 202, 206 (1843). In *McGlurg*, this Court held that an already issued patent may not be invalidated simply

because the underlying statute issuing it has been repealed. *Id.* ("[R]epeal [of a patent statute] can have no effect to impair the right of property then existing in a patentee, or his assignee, according to well-established principles of this court[.]"). And, consistent with the well-established understanding that patents are private property, the Court relied on real-property cases to reach its holding. *See id.* (citing *Society for the Propagation of the Gospel in Foreign Parts v. New Haven*, 21 U.S. (8 Wheat.) 464 (1823) (a case addressing the status of property rights in land under a treaty)).

Private property that is vested thus comes with settled expectations that cannot be disturbed by retroactive changes to the nature of the right. *See Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 739 (2002) (explaining that patent rights constitute "the legitimate expectations of inventors in their property" and "courts must be cautious before adopting changes that disrupt the settled expectations of the inventing community").

Second, one of the sticks inherent in the bundle of rights owned by a patentee—the most important one—is the right to exclude. *See Bonito Boats*, 489 U.S. at 150. That right has, from the beginning, been protected by common-law property doctrines that apply to other forms of private property. Just as a real property owner has a trespass claim against someone who invades his property, patent owners have an infringement claim. Infringement of a patent is a tort tantamount to trespass. Nineteenth-century jurists spoke in those terms and applied common-law property doctrines to

patent disputes. *See, e.g.*, *Goodyear Dental Vulcanite Co. v. Van Antwerp*, 10 F. Cas. 749, 750 (C.C.D.N.J. 1876) (No. 5,600) (equating patent infringement with a "trespass" of horse stables); *Brooks v. Byam*, 4 F. Cas. 261, 268-70 (C.C.D. Mass. 1843) (No. 1,948) (Story, Circuit Justice) (analogizing a patent license to a "right of way . . . over the grantor's lands" and applying real property cases and common-law property treatises to adjudicate a patent dispute). That understanding continued into the twentieth century. *See Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641, 648 (1915) (describing patent infringement as the "tortious taking of a part" of the "exclusive right conferred by the patent [which] was property").

As early cases reflect, the right to enforce an issued patent exists apart from congressional favor. "When the government, fulfilling the intent of the founders, granted to inventors a new right of property in their inventions, no statutory command was needed to open the door of equity to receive the patentee's bill to stop future trespasses, and to make the defendant pay for past trespasses." *Computing Scale Co. v. Toledo Computing Scale Co.*, 279 F. 648, 671 (7th Cir. 1921).

Finally, as Petitioner and other *amici* cover in detail, patent invalidity claims likewise have common-law roots. Private parties' competing claims of patent invalidity have traditionally been litigated in the courts, and were litigated in the courts of England, including with juries ruling on fact questions related to validity, at the time of the founding. *See* Petr. Br. 22-27; *Amicus Curiae* Brief in Support of Neither Party

filed by H. Tomás Gómez-Arostegui and Sean Bottomley, at 30-33 (compiling eighteenth century cases where juries decided validity issues).

As this Court held at the turn of the twentieth century, the long-established understanding was that the "only authority competent to set a patent aside, or to annul it, or to correct it for any reason whatever, is vested in the courts of the United States, and not in the department which issued the patent." *McCormick Harvesting Mach. Co. v. C. Aultman & Co.*, 169 U.S. 606, 609 (1898). In *McCormick Harvesting*, the Court both reaffirmed and relied upon the fact that once a patent issues, "[i]t has become the property of the patentee, and as such is entitled to the same legal protection as other property." *Id.* at 609. Given the private-property nature of the patent, the Court expressed its concern that permitting the agency to cancel an issued, vested patent "would be . . . an invasion of the judicial branch of the government by the executive." *Id.* at 612.

For similar reasons—vested private-property status—quiet title disputes about land patents have likewise historically been adjudicated in courts, not by the issuing agency. *See, e.g.*, *Moore v. Robbins*, 96 U.S. 530, 532 (1877) ("[W]hen the patent has been awarded to one of the contestants, and has been issued, delivered, and accepted, all right to control the title or to decide on the right to the title has passed from the land-office," and "from the Executive Department of the government."); *United States v. Stone*, 69 U.S. (2 Wall.) 525, 535 (1864) ("A patent is the highest evidence of title, and is conclusive . . . until it is set

aside or annulled by some judicial tribunal."). This applies even when some party claims a mistake in the original issuance of the patent. *See Moore*, 96 U.S. at 532 (Once a land patent issues, "[i]f fraud, mistake, error, or wrong has been done, the courts of justice present the only remedy."); *Stone*, 69 U.S. at 535 ("Patents are sometimes issued unadvisedly or by mistake. . . . In such cases courts of law will pronounce them void.").

Consistent with these precedents, there is a deep-rooted historical tradition of litigating challenges to patent validity in courts, often with juries, both in the English common-law tradition and in the early years of the Nation. *See generally Amicus Curiae* Brief in Support of Neither Party filed by H. Tomás Gómez-Arostegui and Sean Bottomley.

Thus, whether as a defense to an infringement claim, or as a freestanding claim for relief, the forum for adjudication of patent validity has historically been the courts. Early congressional enactments reflected this understanding, largely following pre-existing common law regarding challenges to patent validity. *See Mowry v. Whitney*, 81 U.S. (14 Wall.) 434, 440 (1871) (describing the 1836 Patent Act as following "the common law in regard to annulling patents"). In sum, and as for land patents, once "title ha[s] passed from the government," a more complete form of judicial review is available because "the question became one of private right." *Johnson v. Towsley*, 80 U.S. (13 Wall.) 72, 87 (1871).

3. This tradition of judicial adjudication of patent validity ended only very recently. In upholding the substitution of administrative adjudication for federal courts, the Federal Circuit based its holding on the erroneous conclusion that the "patent right" is a "public right" because it "derives from an extensive federal regulatory scheme, and is created by federal law." *MCM Portfolio LLC v. Hewlett-Packard Co.*, 812 F.3d 1284, 1289-90 (Fed. Cir. 2015) (internal quotation marks and citation omitted).

But for all of the above reasons, patents are not "public rights." Rather, they are a form of private property imbued with vested characteristics that cannot be retroactively altered by Congress. The basic premise of *MCM*—that patents are mere public rights—was thus both wrong and destructive of long-held understandings underpinning the stability and security of patent rights. Whatever the Court decides with respect to the constitutionality of IPR, it should reject the Federal Circuit's erroneous holding that patents are public rights.[3]

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[3] *MCM*'s holding turned on the Federal Circuit's erroneous view that *McCormick* was a statutory ruling, not a constitutional one. 812 F.3d at 1289. But *McCormick* was decided on constitutional grounds, and the cases relied on in *McCormick* were Article III cases. *See* Michael I. Rothwell, *After* MCM, *a Second Look: Article I Invalidation of Issued Patents for Intellectual Property Still Likely Unconstitutional After* Stern v. Marshall, 18 N.C. J. L. & TECH. 1, 2-17 (2017).

II. Holding IPR Unconstitutional Need Not Cause Significant Disruption; Congress May Readily Fix The Problems Created By IPR's Significant Expansion Of Agency Power.

Petitioner has argued that the historical status of patent validity claims as private rights litigated in Article III courts (and in front of juries) compels the conclusion that IPR is unconstitutional. *See* Petr. Br. 22-39. Respondents will no doubt disagree. *Amici* do not address these constitutional arguments in the expectation that they will be well-covered in other briefing. Rather, *amici*, grounded in the experience of many of them as frequent litigants on both sides of the "v" before both the PTAB and the courts, seek here to inform the Court about the potential practical consequences of holding IPR unconstitutional.

In *amici*'s view, holding IPR unconstitutional need not cause widespread disruption within the patent system. In the first place, any such holding would affect only IPR, and not the America Invents Act as a whole. The IPR provisions are discrete and can easily be severed from the rest of the Act. Moreover, in fixing the AIA's provisions relating to IPR, Congress would have an opportunity to simultaneously address many of the problems that have plagued the IPR process as implemented by the PTO. The end result is likely to be a system that more fairly and efficiently adjudicates patent validity claims, affording courts and the PTAB roles appropriate to their comparative constitutional and practical advantages.

A. Holding IPR Unconstitutional Would Not Cause Widespread Disruption to the Patent System.

Holding IPR unconstitutional would have a narrow effect. It need not disturb most of the remainder of the AIA, nor the PTO's ability to conduct appropriate error-correction proceedings through reissue or *ex parte* reexaminations.

As an initial matter, IPR judgments that have become final need not be disturbed. *See Harper v. Va. Dep't of Taxation*, 509 U.S. 86, 97 (1993) (a new rule declared in a federal case is applicable only to cases "still open on direct review"); 35 U.S.C. § 142 (Federal Circuit appeal must be filed no later than 60 days after PTAB decision); *Chicot County Drainage Dist. v. Baxter State Bank*, 308 U.S. 371, 374-77 (1940) (holding that a final judgment had full preclusive effect notwithstanding that the Court had, subsequent to the judgment, held unconstitutional the statute conferring jurisdiction on the district court in the earlier case).

Moreover, because the IPR provisions are discrete and plainly severable from the remainder of the Act, a holding on the constitutional question here would not invalidate any of the AIA's other provisions.[4] A "court should refrain from invalidating more of the statute

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[4] As described above, p. 4 n.2, *supra*, post-grant review and covered business method review are materially similar to IPR and thus, if the Court holds IPR unconstitutional, its reasoning might apply as well to those other reviews, but that question is not before the Court in this case.

than is necessary. . . . [W]henever an act of Congress contains unobjectionable provisions separable from those found to be unconstitutional, it is the duty of this court to so declare, and to maintain the act in so far as it is valid." *Alaska Airlines v. Brock*, 480 U.S. 678, 684 (1987) (internal quotation marks and citation omitted).

Severability applies unless it is overcome by clear intent that all provisions of an act must rise and fall together. *See Buckley v. Valeo*, 424 U.S. 1, 108 (1976) (per curiam) ("Unless it is evident that the Legislature would not have enacted those provisions which are within its power, independently of that which is not, the invalid part may be dropped if what is left is fully operative as a law."). No such intent is evident here. Severing the IPR provisions, if deemed unconstitutional, would avoid the tail wagging the dog, given the broad scope of the AIA.

The AIA constitutes the first "comprehensive patent law reform in nearly 60 years." H.R. Rep. No. 112-98, 38 (2011), *reprinted in* 2011 U.S.C.C.A.N. 67. Its reforms extend far beyond the creation of IPR, and include, *inter alia*, the shift to a "first inventor to file" patent system, *id.* at 40-43, permitting "virtual marking" to provide public notice of a patent and limiting false marking suits, *id.* at 52-53, and expansion of pre-issuance submissions from third parties, *id.* at 48-49. Although the creation of IPR and other post-grant review procedures was a significant part of the Act, none of the many other important reforms depend upon IPR to function. Such

independence alone indicates that the AIA need not rise and fall together. *See Buckley*, 424 U.S. at 108.

There is no other indication that Congress would have wanted the entire Act, or any other portion of it, to fall if IPR were inoperative. The lack of a severability clause does not supply the requisite indicia of congressional intent. *Alaska Airlines*, 480 U.S. at 686 ("In the absence of a severability clause, . . . Congress' silence is just that—silence—and does not raise a presumption against severability."). Nor can any inference be drawn from the rejection of a severability clause during the legislative process. *See, e.g.*, 157 Cong. Rec. H4,491 (daily ed. June 23, 2011) (statement of Rep. Watt) (describing an amendment offered during the House of Representatives floor debate that would have added a severability clause as simply "standard policy"; the amendment was later withdrawn). The clause could have been rejected simply because it is unnecessary, or for any number of other reasons. Ultimately, such "'mute intermediate legislative maneuvers' are not reliable indicators of congressional intent." *Mead Corp. v. Tilley*, 490 U.S. 714, 723 (1989) (quoting *Trailmobile Co. v. Whirls*, 331 U.S. 40, 61 (1947)); *see also e.g.*, *City of Milwaukee v. Illinois & Michigan*, 451 U.S. 304, 332 n.24 (1981) (rejecting reliance on rejection of a proposed amendment in determining legislative intent because, among other things, "unsuccessful attempts at legislation are not the best of guides to legislative intent").

Finally, the PTO's ability to correct errors in issued patents with the benefit of agency expertise will be preserved even under a judgment holding IPR unconstitutional. Alternative procedures within the PTO will remain available to address the same kinds of prior art as IPRs, including reissues and *ex parte* reexaminations. *See* 35 U.S.C. § 251 (reissue); *id.* §§ 302-307 (*ex parte* reexaminations). Like IPRs, *ex parte* reexaminations may be requested by any person, *id.* § 302, but the proceedings are otherwise fundamentally different. If instituted, reexamination is conducted by the PTO on an *ex parte* basis, with no involvement of third parties; the proceedings are solely between the government and the patent owner. Moreover, reexamination is not conducted like litigation, with discovery, burdens of proof, trials, and judgments. Rather the examiner works with the patentee using precisely the same iterative process as in the initial examination to refine and correct the patent, including freely permitting amendments. *Id.* § 305. IPR, on the other hand, involves litigation between private parties, no iterative correction of errors, and is not necessary to preserve the PTO's ability to correct errors in issued patents.[5]

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[5] Although amendment during IPR is available in theory, it is typically unavailable in practice. *See Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2145 (2016).

B. Compelling Congress to Take Another Look at IPR Would Permit Congress to Rebalance the Expansion of Administrative Power that Has Undermined Patent Rights.

In the view of *amici*, the problems that have plagued the IPR process are significant. If the Court were to hold IPR unconstitutional, it would present an opportunity for Congress to remedy the problems created by the agency's use of its new patent-validity adjudication power to adopt overwhelmingly pro-petitioner rules.

1. The PTAB has exercised its regulatory discretion in a manner that makes IPR overwhelmingly and unfairly judge patents to be invalid.

By assigning the power to adjudicate patent validity to the PTO, Congress conferred substantially more authority on the PTO (including the PTAB) than it would have if Congress had left the adjudication of patent validity to the courts. This power transfer results not only from transferring an adjudicative function, but also, in part, from precedent accepting the regulatory discretion inherent within such a delegation of power to an administrative agency. *See Chevron USA Inc. v. Nat. Res. Def. Council, Inc.*, 467 U.S. 837, 843 (1984) ("[I]f the statute is silent or ambiguous . . . , the question for the court is whether the agency's answer is based on a permissible construction of the statute."). Accordingly, when

interpreting any ambiguity in the Patent Act, the PTO may choose from a range of interpretations, so long as its interpretation is reasonable, even if a court might construe the statute differently. *See id.* at 844 ("[A] court may not substitute its own construction of a statutory provision for a reasonable interpretation made by the administrator of an agency."); *Cuozzo Speed Techs*, 136 S. Ct. at 2144-45 (holding that "construing a patent claim according to its broadest reasonable construction" in IPR "represents a reasonable exercise of . . . rulemaking authority").

The PTO has overwhelmingly exercised the agency discretion affirmed in *Cuozzo* to select pro-petitioner (and anti-patent owner) alternatives when implementing IPR. For example, this regulatory choice is reflected in the selection of the "broadest reasonable interpretation" standard for claim construction in IPR. *Cuozzo*, 136 S. Ct. at 2136; 37 C.F.R. § 42.100. By using an artificially expansive reading of claims, beyond their ordinary meaning to one skilled in the art and regardless of the prosecution history and the way that claims may have been narrowed or refined during examination, that standard makes claims more likely to run afoul of otherwise distinguishable prior art than the standard applied in the courts. *Cuozzo*, 136 S. Ct. at 2139 (noting courts give claims their "ordinary meaning . . . as understood by a person of skill in the art").

The PTO also declined to apply the presumption of validity Congress mandated for issued patents whose validity is adjudicated in court, 35 U.S.C.

§ 282(a). *See* 77 Fed. Reg. 48,680, 48,697 (Aug. 14, 2012). Although the statute requires the PTO to apply a lower burden of proof to patent challengers than the courts would (preponderance of the evidence rather than clear and convincing proof), 35 U.S.C. § 316(e), nothing in the IPR statute would preclude use of the presumption of validity although it would be rebutted at a lower evidentiary standard. When all of the agency's regulatory choices are combined, the result is that IPR functions as a pro-petitioner, patent-invalidating juggernaut.[6]

The numbers speak for themselves. Through July 31, 2017, nearly 7,000 IPR petitions have been filed. PTO, Patent Trial and Appeal Board, *Trial Statistics: IGR, PGR, CBM*, at 3 (July 2017) ("PTAB Statistics").[7] For the nearly 5,400 petitions for IPR, post-grant review or covered business method review in which institution decisions have been made, more than two-thirds (68.5%) were instituted. *Id.* at 7.[8] Institution leads almost invariably to patent invalidity; some or

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[6] Indeed, the then-Chief Judge of the PTAB accepted the description of the Board as "death squadding" patents. Ryan Davis, *PTAB's 'Death Squad' Label Not Totally Off-Base, Chief Says*, LAW360, Aug. 14, 2014, *available at* https://www.law360.com/articles/567550/ptab-s-death-squad-label-not-totally-off-base-chief-says.

[7] *Available at* https://www.uspto.gov/sites/default/files/documents/Trial_Statistics_2017_07_31.pdf.

[8] Although the PTO's current statistics provide only aggregate data, the vast majority of petitions filed—92%—are IPR petitions, making the aggregate numbers representative of IPR trends. PTAB Statistics, at 3.

all patent claims are found invalid in more than 80% of the cases in which written decisions are issued. *Id.* at 11. And most of the time (65% of cases), it is the case that *all* patent claims are found invalid; in an additional 17% of cases, *some* claims were invalidated. *Id.*

What's more, these statistics understate the actual rate at which the PTAB adjudicates patents invalid. As discussed below, the same patents can be (and often are) challenged repeatedly before the PTAB, but the statistics are compiled on a petitions-filed (not patents-challenged) basis. *See* Anne Layne-Farrar, The Other Thirty Percent: An Economic Assessment of Duplication in PTAB Proceedings and Patent Infringement Litigation, at 6 (June 28, 2017).[9] For example, imagine that four petitions were filed challenging the same claim and the first two were denied, the third was instituted but the claim found valid, and the fourth—building on everything learned through the first three unsuccessful petitions—was instituted and the claim was invalidated. *See id.* The PTO's statistics methodology would report this as a 50% institution rate, with claims invalidated in 50% of the written decisions. But it is in fact a 100% invalidity rate for the patent challenged. Because, as the next section details, duplicative litigation before the PTAB is very common, statistics calculated on a per-patent basis would show a claim-invalidation rate much higher than 82%.

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[9] *Available at* https://ssrn.com/abstract=2994858.

By comparison, a 2014 study of district court cases filed in 2008 and 2009 concluded that courts held patents invalid only about 42% of the time that the cases did not settle, John R. Allison et al., *Understanding the Realities of Modern Patent Litigation*, 92 TEX. L. REV. 1769, 1787 fig.4 (2014)—and this invalidation rate is roughly half the PTAB rate despite the fact that the grounds for invalidity that can be asserted in district court are more numerous than the grounds available in IPR, *compare* 35 U.S.C. § 311(b), *with id.* § 282(b)(2), albeit judged under a higher evidentiary standard.

When patent challengers get second, third, and fourth bites to attack validity before the agency, and with friendlier rules than they would face in court, the incentives are too great not to keep trying, especially when the agency adjudication can relieve them of the need to defend an infringement action in court. *See infra* II.B.2. This effect is magnified by the agency's practice of manipulating procedures to achieve desired outcomes, for example by admittedly stacking PTAB panels to ensure that any PTAB judgments the agency dislikes are overturned by expanded panels.[10] Before

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[10] For example, the Director of the PTO has taken an expansive view of the IPR statute's joinder provision, permitting statutorily time-barred petitioners to add new issues to their pending IPR petitions. *See Nidec Motor Corp. v. Zhongshan Broad Ocean Motor*, ___ F.3d ___, 2017 WL 3597455, at *6 (Fed. Cir. Aug. 22, 2017) (Dyk, J., concurring). When a panel denies joinder, or reaches some other result contrary to the Director's preference, the PTO acknowledges that it adds additional panel members on request for rehearing so that the panel decision will be set aside. *See id.*; Oral Argument, *Yissum Research Development Co. v. Sony*

its lopsided rules went into practice, the PTO estimated approximately 460 petitions would be filed per year in the first few years after enactment of the AIA. *See* 77 Fed. Reg. at 48,724. By fiscal year 2015, the number of annual petitions filed (over 1,700) was more than three times what the PTO projected for the year. *See* PTO, *Patent Trial and Appeal Board Statistics*, at 4 (Sept. 2015).[11]

The IPR process can be analogized to an individual purchasing land through appropriate legal channels, only to be told years after building a factory on that land, investing in technology, and hiring employees, that the property very likely will be taken away after a valuable business is created. And even if the landowner is lucky enough to win the first challenge, second, third, fourth, or more challengers can come along to take a shot at the property. Each challenger has a better than even chance of winning; put together, the odds are long against the owner being able to retain the property. This unacceptable risk significantly diminishes the value of the patent private property right, and shortchanges the corresponding innovation, investment, and job creation that is

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Corp., 626 F. App'x 1006 (Fed. Cir. 2015) (colloquy in which counsel for the PTO acknowledged that when there is a PTAB panel decision that the Director does not agree with, the Director "reset[s]" the panel "by adding a few members who will come out the other way").

[11] *Available at* https://www.uspto.gov/sites/default/files/documents/2015-09-30%20PTAB.pdf.

achieved by building on the bedrock of a strong patent system.

2. Patent owners face repeated and duplicative patent challenges because of the inapplicability of judicial preclusion doctrines.

As this Court has recognized, the IPR statute affords the PTAB effectively the same patent-invalidating power as the district court. *See Cuozzo*, 136 S. Ct. at 2143 (In IPR, "a decision to cancel a patent normally has the same effect as a district court's determination of a patent's invalidity."). Expanding administrative power in this way has invited duplicative litigation in two directions: parallel litigation across different forums, and serial litigation before the agency itself. Requiring patent owners to repeatedly defend the same claims, in competing forums with different rules, significantly undermines the strength and stability of patents.

Because the *res judicata* doctrines that would apply in courts do not apply of their own force before the PTAB, there is effectively no quiet title protection for patent owners. The IPR statute provides that the PTO "may," but is not required to, refuse to institute an IPR petition on the ground that "the same or substantially the same prior art or arguments previously were presented to the Office." 35 U.S.C. § 325(d).[12] Accordingly, IPR petitions may be serially

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[12] Mandatory claim preclusion can apply to a particular petitioner, but only after a final written decision has been issued,

filed without limit against a patent by the same or different petitioners until the challenge is eventually successful. This is not a hypothetical possibility. Among only those patents that were tried before the PTAB and were subject to final written decisions, a full third had faced more than one IPR proceeding. Bryan Koenig, *PTAB Not Mowing Down Patents, USPTO Head Says*, LAW360, May 16, 2017 (reporting statements of former PTO Director Michelle Lee).[13] If the lens is broadened to the institution stage, the serial nature of IPR filings is even more apparent. From the effective date of IPR in September 2012 through June 2016, 49% of IPR and post-grant review petitions were serial petitions. Layne-Farrar, *supra*, at 7.

Making matters worse, the inapplicability of judicial doctrines like *stare decisis* means that successive petitions often work. The decisions of PTAB panels do not bind one another, and the panels vary in their statutory interpretation and evaluation of the same arguments. A study of a sample of 294 patents subject to serial IPR challenges revealed that for 63 of them (over 20%), one or more prior art references were admitted in a successive proceeding that had previously been denied. Layne-Farrar, *supra*, at 7.

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and not for any grounds that were rejected at the institution stage. 35 U.S.C. § 315(e)(1); *Shaw Indus. Grp. v. Automated Creel Sys.*, 817 F.3d 1293, 1300 (Fed. Cir. 2016). And even that narrow preclusion is not applicable to different petitioners (absent privity).

[13] *Available at* https://www.law360.com/articles/924461/ptab-not-mowing-down-patents-uspto-head-says.

On top of the serial litigation before the PTAB, parallel litigation between the PTAB and the courts, too, is an overwhelming reality for patent owners. The vast majority—over 85%—of patents challenged in IPR are also involved in district court proceedings. *See* Saurabh Vishnubhakat, et al., *Strategic Decision Making in Dual PTAB and District Court Proceedings*, 31 BERKELEY TECH. L.J. 45, 69 (2016) (studying all patent cases filed in both forums between September 2011 and June 2015 and concluding that "86.7% of IPR- or [covered business method]-challenged patents are also being litigated in the federal courts"). Essentially, "challenges to patent validity through inter partes review are primarily . . . a defensive response to existing litigation." *Id.* at 76.

This invites strategic behavior whereby patent challengers manipulate the timing of IPR to give them a second bite at the apple if they are unsuccessful on patent invalidity defenses in federal court. Under the PTO's interpretation of the statute, there are ways to circumvent the one-year time limit for filing an IPR petition after an infringement suit is filed, for example by requesting joinder with a pending IPR petition. *See Nidec Motor Corp.*, 2017 WL 3597455, at *6 (Dyk, J., concurring).

Joinder and similar mechanisms thus enable district court defendants to preserve the ability to seek IPR if they lose their invalidity defense in district court. The end result can be that patents judged valid by an Article III court are later judged invalid by an administrative tribunal, applying looser standards.

See, e.g., *Novartis AG v. Noven Pharm. Inc.*, 853 F.3d 1289, 1294 (Fed. Cir. 2017) ("[T]he PTAB properly may reach a different conclusion [than a federal court] based on the same evidence."); *PATENT ACT—Finding Effective Solutions to Address Abusive Patent Practices: Hearing on S. 1137 Before the S. Comm. on the Judiciary* (May 7, 2015) (statement of Kevin H. Rhodes, Vice President and Chief Intellectual Property Counsel of 3M Company, at 25) (describing additional example of an unsuccessful district court litigant resorting to IPR).[14] In short, a patent infringement claim in an Article III court can effectively be nullified by an administrative tribunal. And this effect is asymmetric; a judgment of validity can be continually re-litigated, whereas a judgment of invalidity is final.

3. The problem of duplicative litigation is made worse by the absence of standing requirements.

The possibilities for serial and duplicative litigation are magnified, moreover, because the PTAB's adjudicative power, unlike a court's, does not depend upon the existence of an actual case or controversy. IPR petitions may be, and often are, filed by persons who would not satisfy standing requirements in federal court. This has led to abusive practices, such as hedge funds that are shorting the stock of a patent holder filing multiple IPR petitions in an effort to drive down share prices through the mere fact of petition filing—

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[14] *Available at* https://www.judiciary.senate.gov/meetings/s-1137-the-patent-act_finding-effective-solutions-to-address-abusive-patent-practices.

given the well-known statistics on the high patent "kill rate" in IPRs—regardless of how those IPR petitions are resolved on the merits. *See* Ed Silverstein, *Hedge Fund Manager Kyle Bass Continues in His Efforts at the PTAB*, INSIDE COUNSEL, Sept. 17, 2015 (describing hedge fund manager's strategy of filing 30-plus IPR petitions against pharmaceutical patents, many of them successive).[15]

Standing requirements do apply, of course, for the limited appeals available from PTAB decisions to the Federal Circuit. 35 U.S.C. § 141(c); *Consumer Watchdog v. Wis. Alumni Research Found.*, 753 F.3d 1258 (Fed. Cir. 2014).[16] But because the Federal Circuit applies deferential administrative review standards, *e.g.*, *Novartis AG*, 853 F.3d at 1291 (reviewing factual findings under substantial evidence standard), and the volume of appeals cannot possibly keep pace with the volume of IPRs, Federal Circuit review has not been sufficient to fix the many structural and procedural failings of the system. *See* Kerry S. Taylor & Daniel A. Kamkar, *IPR Appeals: Pendency and Success Rates at Fed. Cir.*, LAW360, Feb. 8, 2017 (reporting that the

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[15] *Available at* http://www.insidecounsel.com/2015/09/17/hedge-fund-manager-kyle-bass-continues-in-his-effo.

[16] And in a recent decision, *Personal Audio, LLC v. Electronic Frontier Found.*, No. 2016-1123, 2017 WL 3366604 (Fed. Cir. Aug. 7, 2017), the Federal Circuit held that due to Article III standing being satisfied by the appellant-patent owner, the appellee-petitioner was not constitutionally excluded from defending the PTAB's decision.

Federal Circuit issued 99 decisions on IPR appeals in 2016, with a 75% affirmance rate).[17]

C. Congress May Readily Fix the IPR System to Address Any Constitutional Deficiencies.

The Court, and Congress, have tools at hand to avoid turmoil following any decision holding IPR unconstitutional. To start, as it did in the bankruptcy context, this Court could stay its judgment to afford Congress time to address any infirmities in IPR. *E.g.*, *N. Pipeline Constr. Co. v. Marathon Pipe Line Co.*, 458 U.S. 50, 88 (1982) (plurality) (staying judgment because a "limited stay will afford Congress an opportunity to reconstitute the bankruptcy courts or to adopt other valid means of adjudication, without impairing the interim administration of the bankruptcy laws").

Several options are available to Congress to address constitutional concerns. For example, Congress could provide for different forms of Article III review or otherwise alter the IPR system such that the PTAB could serve as an "adjunct" to the district court. *See United States v. Raddatz*, 447 U.S. 667, 682 (1980) (holding magistrate judges act as permissible adjuncts because "[t]he authority—and the responsibility—to make an informed, final determination . . . remains with the [district] judge").[18]

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[17] *Available at* https://www.law360.com/articles/884916.

[18] If the Court were to find a right to a jury trial, of course, then the applicable procedures would depend upon the absence of

Bankruptcy courts and magistrate judges provide ready models. Magistrate judges serve as adjuncts to the district court by issuing recommendations on the resolution of dispositive motions to the district court, which may adopt the report and recommendation but must review *de novo* any parts of the recommendation to which there is an objection. 28 U.S.C. § 636(b)(1)(B)-(C); *Raddatz*, 447 U.S. at 681-82. Not only could Congress provide for the PTAB to issue opinions akin to reports and recommendations, it could materially reduce the current duplicative litigation between the PTAB and the courts by doing so. Specifically, when a related patent infringement suit is pending—as it usually is—Congress could authorize the PTAB to issue an advisory opinion on patent validity to the district court in which the related patent infringement suit is pending.

In bankruptcy court, the degree of involvement by Article III courts depends upon whether the claim at issue involves a "core" or "non-core" proceeding. 28 U.S.C. § 157(b)(2), (4). "Core" proceedings are those in which Congress "thought bankruptcy courts could constitutionally enter judgment" because they are intrinsically intertwined with the core bankruptcy function of "the restructuring of debtor-creditor relations." *Wellness Int'l Network, Ltd. v. Sharif*, 135 S. Ct. 1932, 1940 & n.3 (2015); *see N. Pipeline*, 458 U.S. at 71 (plurality) (assuming without deciding that the "restructuring of debtor-creditor relations" "may well

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material disputed facts or waiver of any jury right, *see Hodges v. Easton*, 106 U.S. 408, 412 (1882).

be a 'public right'"). Such proceedings are decided by bankruptcy judges subject to appeal to district courts, followed by the courts of appeals, 28 U.S.C. § 158, with review "under traditional appellate standards," *Stern v. Marshall*, 564 U.S. 462, 475 (2011). For "non-core" proceedings, however—meant to cover the adjudication of certain private rights that require Article III adjudication—the bankruptcy court functions much as a magistrate judge does, issuing opinions subject to *de novo* review by the district court, which issues the final judgment. 28 U.S.C. § 157(c); *Stern*, 564 U.S. at 475. Congress could provide for an equivalent form of *de novo* review of PTAB decisions in the district courts.

Indeed, the Patent Act already contains a well-established model for *de novo* district court review. Specifically, the Patent Act provides for appeals through the institution of a new civil action in district court for certain post-grant proceedings (but not IPR). 35 U.S.C. §§ 141(d), 146. Appeals under Section 146 are currently provided for derivation proceedings, and were long used for interferences (and still are for interferences filed regarding first-to-invent patents, which do not apply for newer first-to-file patents established by the AIA). *See* 35 U.S.C. § 146 (2010); AIA, § 3(n), 125 Stat. at 293 (providing for continuation of interferences related to pre-AIA patents).

A civil action has been available in such interference proceedings involving a granted patent since 1836. *See* P. J. Federico, *Evolution of Patent Office*

Appeals: Part I, 22 J. PAT. OFF. SOC'Y 838, 840 & n.6 (1940). And it was precisely because two adverse parties with competing claims were involved that the 1836 Congress provided a civil action. *See* S. Doc. No. 338 (1836), *as reprinted in* 18 J. PAT. OFF. SOC'Y 854, 858 (1936). This choice reflects Congress's early and long-standing understanding that fairness and constitutional structure favored permitting a party aggrieved by a decision in an adversarial proceeding before the agency to appeal *de novo* to the district court. Congress was able to preserve this right when derivation proceedings replaced interferences, and could do so again for IPRs.

Another option for Congress would be to require both parties' consent to the authority of the PTAB to issue a binding final judgment on patent validity. *See Wellness Int'l Network*, 135 S. Ct. at 1939 (holding that "Article III is not violated when the parties knowingly and voluntarily consent to adjudication by a bankruptcy judge" of claims for which they "are constitutionally entitled to an Article III adjudication"); *Peretz v. United States*, 501 U.S. 923, 936 (1991) (holding that allowing a magistrate judge to supervise jury selection in a criminal trial, with consent, does not violate Article III). Currently, only the patent challenger consents to IPR.[19]

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[19] If the Court were to hold IPR unconstitutional, then even with consent, the degree of Article III review would have to be sufficient to avoid "impermissibly threate[ning] the institutional integrity of the Judicial Branch." *Wellness Int'l Network*, 135 S. Ct. at 1944 (internal quotation marks omitted). Generally,

Amici recognize that, if the Court were to hold IPR unconstitutional, these fixes are for Congress to undertake, not the Court. They offer their views based upon many decades of experience navigating patent litigation only to reassure the Court that holding IPR unconstitutional can yield a narrow ruling that need not disturb the remainder of the AIA, or completed IPRs, and that alterations to IPR, if necessary, need not be drawn out, difficult, or disruptive.

CONCLUSION

For the foregoing reasons, the Court should hold that issued patents and patent validity claims are private rights. If the Court invalidates IPR, the Court should stay its judgment to permit Congress to fix any constitutional infirmities in IPR, and hold that the other parts of the AIA are severable, or remand that question to the Court of Appeals for further consideration.

Respectfully submitted.

Hyland Hunt
Counsel of Record
Ruthanne M. Deutsch
DEUTSCH HUNT PLLC

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"allowing Article I adjudicators to decide claims submitted to them by consent does not offend the separation of powers so long as Article III courts retain supervisory authority over the process." *Id.*